

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6852

BILL NUMBER: HB 1966

NOTE PREPARED: Dec 20, 2002

BILL AMENDED:

SUBJECT: College Contribution Tax Credit.

FIRST AUTHOR: Rep. Thompson

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill increase the maximum Adjusted Gross Income (AGI) Tax credit for contributions by individuals to Indiana colleges from \$100 to \$1,000 for single returns and from \$200 to \$2,000 for joint returns. The bill also increases the maximum Adjusted Gross Income (AGI) Tax credit for contributions by corporations to Indiana colleges from \$1,000 to \$10,000.

Effective Date: January 1, 2003 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill would reduce state AGI Tax liabilities of individuals and corporations making charitable contributions to Indiana institutions of higher education in excess of the current limits for the college tax credit. Potential revenue loss totals are presented in the table below depending upon the number of taxpayers claiming credits above the current maximum credit levels. The estimates assume varying response rates to the maximum credit levels (i.e., 5% of those currently claiming the maximum credit level claim the new maximum credit level). In addition, the lower value in each range assumes no year-to-year change in the number of taxpayers claiming the maximum credit. The high values in each range assume that the recent annual change in the number of filers claiming the maximum credit level will continue in the future.

Revenue Loss if . . .	FY 2004	FY 2005
5% of taxpayers currently claiming the maximum credit claim the new maximum credit	\$2.3 M - \$2.5 M	\$2.3 M - \$2.6 M
10% of taxpayers currently claiming the maximum credit claim the new maximum credit	4.6 M - 5.1 M	4.6 M - 5.2 M
25% of taxpayers currently claiming the maximum credit claim the new maximum credit	11.6 M - 12.7 M	11.6 M - 13.1 M
50% of taxpayers currently claiming the maximum credit claim the new maximum credit	23.2 M - 25.4 M	23.2 M - 26.2 M
75% of taxpayers currently claiming the maximum credit claim the new maximum credit	34.8 M - 38.1 M	34.8 M - 39.3 M
100% of taxpayers currently claiming the maximum credit claim the new maximum credit	46.4 M - 50.8 M	46.4 M - 54.1 M

Background: Under current law, individuals may claim an AGI Tax credit that is limited to 50% of charitable contributions to Indiana higher education institutions up to a maximum of \$100 for a single taxpayer or \$200 for taxpayers filing a joint return. Current law also permits a corporation to claim a credit for such contributions equal to 10% of its total Corporate Adjusted Gross Income (AGI) Tax liability up to \$1,000. The bill increases the maximum credit levels for individuals to \$1,000 for single filers and \$2,000 for joint filers; and for corporations to \$10,000. As a result, the bill would reduce AGI tax liabilities for individuals who make charitable contributions to Indiana's higher education institutions in excess of the current credit limits. Since the increase in the credit limits is effective beginning in tax year 2003, the fiscal impact would begin in FY 2004. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

According to income tax return data for tax year 2000, 85,260 individual taxpayers claimed approximately \$8.2 M in credits for contributions to Indiana higher education institutions. Of the total, 252 separate return filers and 8,670 single return filers claimed the maximum \$100 credit, and 20,905 joint filers claimed the \$200 maximum credit. In addition, corporate taxpayers claimed \$124,031 in college contribution credits, with 77 claiming the maximum credit of \$1,000. It is assumed that taxpayers currently claiming less than the maximum credit would not increase their higher education contributions solely due to an increase in the credit limit. It is also assumed that varying percentages of filers currently claiming the maximum credit will claim the new maximum credit level for purposes of the table above. Since 1998, the number of individual taxpayers claiming maximum credit amounts has risen by an average of 3.31% annually. By filer status, annual growth has averaged 3.38% for single return filers, 2.05% for separate return filers, and 3.38% for joint return filers. During the same period, however, the number of corporate taxpayers claiming the maximum credit level has declined by 12.25% per year. The high value in each range accounts for this underlying trend in maximum credit claims.

Impact on Higher Education Institutions: This bill may result in an increase in charitable contributions to institutions of higher education. The portion of any increase which will be realized by state institutions is not known.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Higher education institutions.

Local Agencies Affected:

Information Sources: OFMA income tax databases for 1996-2000.

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